

O: Valuation bases for Group assets

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets have been valued at fair value, the Group has followed the principles under IFRS 13 'Fair value measurement'. The basis applied for the assets section of the statement of financial position at 30 June 2013 is summarised below:

	2013 £m			2012* £m					
	At fair value	Cost/Amortised cost note (i)	30 Jun Total	At fair value	Cost/Amortised cost note (i)	30 Jun Total	At fair value	Cost/Amortised cost note (i)	31 Dec Total
Intangible assets attributable to shareholders:									
Goodwill ^{note M}	–	1,474	1,474	–	1,467	1,467	–	1,469	1,469
Deferred acquisition costs and other intangible assets ^{note N}	–	5,538	5,538	–	4,237	4,237	–	4,177	4,177
Total	–	7,012	7,012	–	5,704	5,704	–	5,646	5,646
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	–	178	178	–	178	178	–	178	178
Deferred acquisition costs and other intangible assets	–	79	79	–	84	84	–	78	78
Total	–	257	257	–	262	262	–	256	256
Total intangible assets	–	7,269	7,269	–	5,966	5,966	–	5,902	5,902
Other non-investment and non-cash assets:									
Property, plant and equipment	–	868	868	–	787	787	–	754	754
Reinsurers' share of insurance contract liabilities	–	7,204	7,204	–	1,698	1,698	–	6,854	6,854
Deferred tax assets ^{note H}	–	2,637	2,637	–	2,169	2,169	–	2,306	2,306
Current tax recoverable	–	191	191	–	302	302	–	248	248
Accrued investment income	–	2,726	2,726	–	2,686	2,686	–	2,771	2,771
Other debtors	–	2,318	2,318	–	1,784	1,784	–	1,325	1,325
Total	–	15,944	15,944	–	9,426	9,426	–	14,258	14,258
Investments of long-term business and other operations: ^{note (ii)}									
Investment properties	10,583	–	10,583	10,532	–	10,532	10,544	–	10,544
Investments accounted for using the equity method	–	696	696	–	587	587	–	635	635
Loans ^{note P}	2,268	10,962	13,230	285	10,515	10,800	2,068	10,675	12,743
Equity securities and portfolio holdings in unit trusts	112,258	–	112,258	89,098	–	89,098	98,626	–	98,626
Debt securities ^{note Q}	138,256	–	138,256	127,349	–	127,349	138,907	–	138,907
Other investments	6,140	–	6,140	7,828	–	7,828	7,547	–	7,547
Deposits	–	13,542	13,542	–	11,951	11,951	–	12,248	12,248
Total investments	269,505	25,200	294,705	235,092	23,053	258,145	257,702	23,558	281,260
Assets held for sale	1,079	–	1,079	–	–	–	98	–	98
Cash and cash equivalents	–	6,840	6,840	–	6,335	6,335	–	6,126	6,126
Total assets	270,584	55,253	325,837	235,092	44,780	279,872	257,800	49,844	307,644
Percentage of Group total assets	83%	17%	100%	84%	16%	100%	84%	16%	100%

* The 2012 comparative results have been adjusted from those previously published for the retrospective application of the new and amended accounting standards described in note B.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

Notes

- (i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- (ii) Realised gains and losses on the Group's investments for the half year 2013 recognised in the income statement amounted to a net gain of £0.8 billion (half year 2012: £3.6 billion; full year 2012: £6.8 billion).

i Financial instruments - designation and fair values

The tables below show the fair values of financial assets and liabilities (including those that are not presented in the statement of financial position at fair value).

	30 Jun 2013 £m note (ii)	
	Total carrying value	Fair value
Financial assets		
Cash and cash equivalents	6,840	6,840
Deposits	13,542	13,542
Equity securities and portfolio holdings in unit trusts	112,258	112,258
Debt securities ^{note Q}	138,256	138,256
Loans ^{note P}	13,230	13,404
Other investments	6,140	6,140
Accrued investment income	2,726	2,726
Other debtors	2,318	2,318
	295,310	

	30 Jun 2013 £m note (ii)	
	Total carrying value	Fair value
Financial liabilities		
Core structural borrowings of shareholder-financed operations ^{note S}	4,149	4,534
Operational borrowings attributable to shareholder-financed operations ^{note T}	2,530	2,530
Borrowings attributable to the with-profits fund held at fair value ^{note T}	924	924
Obligations under funding, securities lending and sale and repurchase agreements	2,889	2,899
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	5,394	5,394
Investment contract with discretionary participation features held at fair value ^{note (i)}	33,402	n/a
Investment contract without discretionary participation features held at fair value	19,865	19,872
Other creditors	3,743	3,743
Derivative liabilities	2,226	2,226
Other liabilities	3,661	3,661
	78,783	

Notes

- (i) It is impractical to determine the fair value of investment contracts with discretionary participation features due to the lack of a reliable basis to measure such features.
- (ii) Following the adoption of IFRS 13, 'Fair Value Measurement', and in accordance with the corresponding amendments to IAS 34, 'Interim Financial Reporting', the tables above show a comparison of the fair value of financial assets and liabilities compared to their carrying amounts. Under IFRS 13, this disclosure has been provided on a prospective basis.

ii Determination of fair value

The fair values of the assets and liabilities of the Group have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest.

The fair value of financial liabilities (other than derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

Level 1, 2 and 3 fair value measurement hierarchy of Group financial instruments

The table below includes financial instruments carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

The classification criteria and its application to Prudential can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 1 includes financial instruments where there is clear evidence that the valuation is based on a quoted publicly traded price in an active market (eg exchange listed equities, mutual funds with quoted prices and exchange traded derivatives).

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable either directly (ie as prices) or indirectly (ie derived from prices).

Level 3 – significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 includes investments which are internally valued or subject to a significant number of unobservable assumptions (eg private equity funds and certain derivatives which are bespoke or long dated).

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

iii Fair value hierarchy of financial instruments measured at fair value on recurring basis

	30 Jun 2013 £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	23,525	1,807	625	25,957
Debt securities	15,241	44,609	522	60,372
Other investments (including derivative assets)	155	757	2,924	3,836
Derivative liabilities	(156)	(883)	–	(1,039)
Total financial investments, net of derivative liabilities	38,765	46,290	4,071	89,126
Percentage of total	43%	52%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	85,014	265	63	85,342
Debt securities	3,683	5,932	2	9,617
Other investments (including derivative assets)	4	21	–	25
Derivative liabilities	(2)	(5)	–	(7)
Total financial investments, net of derivative liabilities	88,699	6,213	65	94,977
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	242	2,026	2,268
Equity securities and portfolio holdings in unit trusts	879	33	47	959
Debt securities	13,551	54,559	157	68,267
Other investments (including derivative assets)	72	1,331	876	2,279
Derivative liabilities	–	(974)	(206)	(1,180)
Total financial investments, net of derivative liabilities	14,502	55,191	2,900	72,593
Percentage of total	20%	76%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	242	2,026	2,268
Equity securities and portfolio holdings in unit trusts	109,418	2,105	735	112,258
Debt securities	32,475	105,100	681	138,256
Other investments (including derivative assets)	231	2,109	3,800	6,140
Derivative liabilities	(158)	(1,862)	(206)	(2,226)
Total financial investments, net of derivative liabilities	141,966	107,694	7,036	256,696
Borrowings attributable to the with-profits fund held at fair value	–	(22)	–	(22)
Investment contract liabilities without discretionary participation features held at fair value	–	(17,342)	–	(17,342)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,696)	(357)	(1,341)	(5,394)
Other financial liabilities held at fair value	–	(256)	(2,206)	(2,462)
Total	138,270	89,717	3,489	231,476
Percentage of total	59%	39%	2%	100%

In addition to the financial instruments shown above, the assets and liabilities held for sale on the condensed consolidated statement of financial position at 30 June 2013 in respect of Japan Life business included a net financial instruments balance of £1,140 million, primarily for equity securities and debt securities. Of this amount, £1,038 million has been classified as level 1, £74 million as level 2 and £28 million as level 3.

	30 Jun 2012* £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	21,466	1,389	475	23,330
Debt securities	14,698	43,849	532	59,079
Other investments (including derivative assets)	295	1,412	2,692	4,399
Derivative liabilities	(41)	(1,413)	–	(1,454)
Total financial investments, net of derivative liabilities	36,418	45,237	3,699	85,354
Percentage of total	43%	53%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	64,581	176	22	64,779
Debt securities	3,742	4,955	9	8,706
Other investments (including derivative assets)	24	80	–	104
Derivative liabilities	(8)	(9)	–	(17)
Total financial investments, net of derivative liabilities	68,339	5,202	31	73,572
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	285	–	285
Equity securities and portfolio holdings in unit trusts	904	12	73	989
Debt securities	11,822	47,591	151	59,564
Other investments (including derivative assets)	21	2,530	774	3,325
Derivative liabilities	(132)	(1,649)	(201)	(1,982)
Total financial investments, net of derivative liabilities	12,615	48,769	797	62,181
Percentage of total	20%	79%	1%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	285	–	285
Equity securities and portfolio holdings in unit trusts	86,951	1,577	570	89,098
Debt securities	30,262	96,395	692	127,349
Other investments (including derivative assets)	340	4,022	3,466	7,828
Derivative liabilities	(181)	(3,071)	(201)	(3,453)
Total financial investments, net of derivative liabilities	117,372	99,208	4,527	221,107
Borrowings attributable to the with-profits fund held at fair value	–	(41)	–	(41)
Investment contract liabilities without discretionary participation features held at fair value	–	(15,221)	–	(15,221)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,936)	(152)	(1,098)	(4,186)
Other financial liabilities held at fair value	–	(311)	–	(311)
Total	114,436	83,483	3,429	201,348
Percentage of total	57%	41%	2%	100%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

	31 Dec 2012* £m			Total
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	22,057	2,496	480	25,033
Debt securities	16,056	45,550	542	62,148
Other investments (including derivative assets)	108	1,743	2,574	4,425
Derivative liabilities	(61)	(1,075)	–	(1,136)
Total financial investments, net of derivative liabilities	38,160	48,714	3,596	90,470
Percentage of total	42%	54%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	72,488	183	39	72,710
Debt securities	3,660	5,409	2	9,071
Other investments (including derivative assets)	26	10	–	36
Derivative liabilities	–	(1)	–	(1)
Total financial investments, net of derivative liabilities	76,174	5,601	41	81,816
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	–	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	827	7	49	883
Debt securities	13,357	54,146	185	67,688
Other investments (including derivative assets)	24	2,301	761	3,086
Derivative liabilities	(16)	(1,484)	(195)	(1,695)
Total financial investments, net of derivative liabilities	14,192	55,196	2,642	72,030
Percentage of total	20%	76%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	226	1,842	2,068
Equity securities and portfolio holdings in unit trusts	95,372	2,686	568	98,626
Debt securities	33,073	105,105	729	138,907
Other investments (including derivative assets)	158	4,054	3,335	7,547
Derivative liabilities	(77)	(2,560)	(195)	(2,832)
Total financial investments, net of derivative liabilities	128,526	109,511	6,279	244,316
Borrowings attributable to the with-profits fund held at fair value	–	(40)	–	(40)
Investment contract liabilities without discretionary participation features held at fair value	–	(16,309)	–	(16,309)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(3,653)	(268)	(1,224)	(5,145)
Other financial liabilities held at fair value	–	(259)	(2,021)	(2,280)
Total	124,873	92,635	3,034	220,542
Percentage of total	57%	42%	1%	100%

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

iv Valuation approach for level 2 fair valued financial instruments

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described above in this note with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £105,100 million at 30 June 2013 (30 June 2012: £96,395 million; 31 December 2012: £105,105 million), £8,645 million are valued internally (30 June 2012: £7,287 million; 31 December 2012: £8,248 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

Notes on the IFRS basis results continued

O: Valuation bases for Group assets continued

v Fair value measurements for level 3 fair valued financial instruments

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2013 to that presented at 30 June 2013.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

	Half year 2013 £m										
	At 1 Jan	Total gains/losses in income statement	Total gains/losses recorded in other comprehensive income	Purchases	Sales	Settled	Issued	Reclassification of Japan Life as held for sale	Transfers into level 3	Transfers out of level 3	At 30 Jun
Loans	1,842	67	36	-	-	(37)	118	-	-	-	2,026
Equity securities and portfolio holdings in unit trusts	568	52	4	13	(11)	-	25	-	87	(3)	735
Debt securities	729	27	9	20	(77)	-	-	(26)	29	(30)	681
Other investments (including derivative assets)	3,335	373	137	177	(272)	-	-	-	50	-	3,800
Derivative liabilities	(195)	(14)	-	-	2	-	-	-	-	1	(206)
Total financial investments, net of derivative liabilities	6,279	505	186	210	(358)	(37)	143	(26)	166	(32)	7,036
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,224)	(80)	(2)	26	-	-	(61)	-	-	-	(1,341)
Other financial liabilities	(2,021)	(54)	(146)	-	-	50	(35)	-	-	-	(2,206)
Total	3,034	371	38	236	(358)	13	47	(26)	166	(32)	3,489

Of the total net gains and losses in the income statement of £371 million, £333 million relates to net unrealised gains relating to financial instruments still held at the end of the period, which can be analysed as follows:

	30 Jun 2013 £m
Equity securities	50
Debt securities	10
Other investments	355
Derivative liabilities	(14)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(80)
Other financial liabilities	12
Total	333

Valuation approach for level 3 fair valued financial instruments

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

In accordance with the Group's risk management framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

At 30 June 2013 the Group held £3,489 million (30 June 2012: £3,429 million; 31 December 2012: £3,034 million), 2 per cent of the total fair valued financial assets net of fair valued financial liabilities (30 June 2012: 2 per cent; 31 December 2012: 1 per cent), within level 3.

Included within these amounts were loans of £2,026 million at 30 June 2013 (30 June 2012: £nil; 31 December 2012: £1,842 million), measured at the loan outstanding balance, attached to REALIC acquired in 2012 and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,206 million at 30 June 2013 (30 June 2012: £nil; 31 December 2012: £2,021 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(180) million (30 June 2012: £nil; 31 December 2012: £(179) million), the level 3 fair valued financial assets net of financial liabilities were £3,669 million (30 June 2012: £3,429 million; 31 December 2012: £3,213 million). Of this amount, a net liability of £(272) million (30 June 2012: £(177) million; 31 December 2012: £(213) million) were internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (30 June 2012: 0.1 per cent; 31 December 2012: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

- Debt securities of £80 million (30 June 2012: £105 million; 31 December 2012: £75 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured);
- Private equity and venture investments of £955 million (30 June 2012: £800 million; 31 December 2012: £904 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third parties;
- Liabilities of £(1,311) million (30 June 2012: £(1,111) million; 31 December 2012: £(1,199) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets; and
- Other sundry individual financial investments of £4 million (30 June 2012: £29 million; 31 December 2012: £7 million).

Of the internally valued net liabilities referred to above of £(272) million (30 June 2012: £(177) million; 31 December 2012: £(213) million):

- A net liability of £(313) million (30 June 2012: £(232) million; 31 December 2012: £(240) million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments;
- A net asset of £nil (30 June 2012: £13 million; 31 December 2012: £3 million) was held by the Group's unit-linked funds for which the investment return is wholly attributable to policyholders; and
- A net asset of £41 million (30 June 2012: £42 million; 31 December 2012: £24 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £4 million (30 June 2012: £4 million; 31 December 2012: £2 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of less than £1 million (30 June 2012: a decrease of £1 million; 31 December 2012: an increase of £1 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £4 million decrease (30 June 2012: a £3 million decrease; 31 December 2012: a £3 million decrease) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are undertaken by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

vi Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During half year 2013, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £178 million and transfers from level 2 to level 1 of £243 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, as shown in the table in section v above, the transfers into and out of level 3 in half year 2013 were £166 million and £(32) million, respectively. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.